



MR. PAUL F. MANLEY
17917 SCHNELEY AVE.
CLEVELAND 19, OHIO

CLM-1

FOREIGN POLICY BULLETIN

An interpretation of current international events by the Research Staff of the Foreign Policy Association

FOREIGN POLICY ASSOCIATION, Incorporated

22 East 38th Street, New York 16, N. Y.

VOL. XXVI, No. 43

AUGUST 8, 1947

U.S. ENDORSES IDEA OF CUSTOMS UNION FOR EUROPE

SINCE April 10, delegations from seventeen nations have been working in Geneva on the text of a charter for an International Trade Organization (ITO); at the same time, they have been negotiating reciprocal tariff reductions. But while this second session (the first was held in London in the fall of 1946) of the UN Preparatory Conference on Trade and Employment has widened the area of agreement on desirable commercial policy, there will be no quick transition to a freer, non-discriminatory world trade system. With its dollar supply near exhaustion, the British government has reached the point where drastic cuts in dollar expenditures are necessary. Moreover, London finds that it cannot now begin to apply non-discrimination in its import controls—an unavoidable decision which the United States has accepted. Unless and until the productive capacity of the war-ravaged countries of Europe is considerably increased, they have no choice but to continue strict control over their foreign trade. The Geneva trade parley and plans to implement the Marshall proposal are closely related, because non-discriminatory trade is not possible until European production has fully recovered.

BENELUX: MODEL FOR EUROPE? This fact was recognized on July 29, when all participants in the Geneva conference agreed that the ITO charter should permit the establishment of preferential trade arrangements preliminary to the formation of a customs union. Previously, Washington had informed the French and British governments that it would not object to a regional preferential tariff system in Europe, provided such a scheme was part of a plan for economic integration and an eventual customs union. This realistic approach to the problem of rebuilding Europe's economy was unquestionably influenced by the example which Belgium, the Neth-

erlands and Luxembourg have set since the end of the war in evolving an economic union. Called "Benelux," this program envisages total integration of the economies of the three countries, with internal free trade. Despite many obstacles considerable progress has already been made, and the way has been pointed for other nations to follow.

High British and French officials in Geneva are now exploring the possibilities of extending the Benelux project. Admittedly, this method of developing a more stable and prosperous Western European economy does not provide a simple and quick solution to the problem of economic reconstruction, since economic union involves the adjustment of the trade and industry of each participating nation on the basis of comparative national advantage. Achievement of this goal, however, need not be a remote possibility. In the case of Benelux, it is expected that complete economic union will be reached by 1949.

Acceptance by the United States of the principle of regional trade preference has improved the outlook for the ITO. The plan of the Geneva meeting for a world trade conference in Havana in November to adopt the final text of the ITO charter was approved by the UN Economic and Social Council on July 28. Thus far the Preparatory Committee has agreed on the provisions of six of the eight chapters. Work on the other two chapters, which cover commercial policy and the development of economically weak areas—the most polemical issues—is continuing with the expectation that before the Havana gathering, substantial agreement will have been reached on all parts of the Charter except those dealing with voting power in the ITO and relations with non-members. Such success, however, is not certain, for some nations, Cuba and India particularly, have so far steadfastly insisted on much

Contents of this BULLETIN may be reprinted with credit to the Foreign Policy Association.

greater freedom to use quantitative import controls than the United States is willing to accept. Already several exceptions have been approved; further concessions, Washington contends, would make the charter meaningless.

LITTLE PROGRESS IN TARIFF DEALS. Even should there be agreement on the ITO, this will not mean much in terms of an expanding world economy unless member countries make no real progress in reducing trade barriers. To date, tariff bargaining in Geneva has accomplished little. Only 13 agreements (including one between this country and Norway) have been completed out of the 120 contemplated; major trade pacts remain to be worked out. After many weeks of bargaining, the American delegation has informed the French delegates that no basis for further discussion exists. The Australian delegates have taken a similar stand with respect to the United States, which so far has given no indication that it will reduce the 34 cents per lb. duty on wool. Australia is supported by New Zealand and South Africa, which also export wool. Since all concessions by one country to another are automatically extended to third countries, the lack of

agreement on wool means that bargaining with other key nations is at a standstill. Another setback came on August 2, when Brazil announced that its tariff rates were being increased by 40 per cent.

In the meantime action by Congress has not increased the confidence of other governments in our determination to apply the program we support in Geneva. According to some observers, the wool bill, even though vetoed by the President on June 26,* took the heart out of the trade parley. The proposed Sugar Act of 1948, passed by Congress shortly before it adjourned, is another example of legislation which contravenes our foreign economic policy. By maintaining what is in effect a cartelized sugar industry this bill repudiates the principle of free, competitive enterprise. The net result is discriminatory treatment of the more economical production of sugar in Cuba and elsewhere in favor of higher cost production in the United States. Can we expect other nations to conduct their trade on the basis of comparative costs when we ourselves make exceptions to this rule?

HAROLD H. HUTCHESON

*See *Foreign Policy Bulletin*, July 4, 1947.

LATIN AMERICANS PLAN TO STRESS ECONOMIC ISSUES AT RIO

The decisions reached at the inter-American conference scheduled to open August 15 near Rio de Janeiro promise to be as portentous for the years immediately ahead as the measures drawn up at the 1942 Rio conference were for the war period. That the United States attaches considerable significance to the meeting is indicated by the size and importance of the delegation it will send to Brazil. Secretary Marshall will head the American group and President Truman himself may address the closing session in early September. It remains to be seen, however, whether the United States will acquiesce in the Latin American viewpoint that closer economic coordination among the American Republics is indispensable to total defense and is not, as Washington apparently now thinks, a secondary issue. If economic questions are raised at Rio, the United States will have difficulty in approving proposals for a system of bulk purchases of raw materials at guaranteed prices—the type of arrangement that was in force during the war period and that some Latin American governments, notably Bolivia, would like to see continued.

The Latin American governments are casting about for economic aid where they can find it. On the one hand, many will heartily second the current proposal of the Chilean delegation to the UN that an Economic Commission for Latin America, modelled on the commissions for Europe and the Far East, be created to integrate Latin American development needs with European and world require-

ments for reconstruction. Yet, despairing of any speedy re-establishment of world economic equilibrium, Chile, along with other Latin American governments, pressed for preferential treatment from the United States for its raw material exports.

SUGAR AND SOLIDARITY. Bitter Cuban opposition to the terms of the proposed United States Sugar Act of 1948 may, in indirect fashion, bring these economic issues to a head at the inter-American conference. This legislation, which is intended to replace the Act of 1937, seeks to assure stability in the domestic sugar industry and, to this end, instructs the Secretary of Agriculture to establish quotas for domestic and foreign producers based on the estimated sugar demand in this country. Cuba's share of the American market will be 98.4 per cent of whatever tonnage is required to meet domestic demand, after allowing for domestic producers' quotas. Since, in addition, the Philippines is temporarily unable to fill the quota assigned it, Cuba will be permitted to make up 95 per cent of whatever deficit arises from that source. It will also be authorized to ship additional sugar if mainland producers are unable to deliver their full quotas in any one year.

Cuba's principal objection to this arrangement arises from the fact that during the wartime sugar shortage, when mainland production declined, Cuban plantations greatly increased their acreage. The record Cuban delivery this year of nearly 4,000,000 tons of raw sugar helps to account for the full bowls

on American tables today. When mainland and Philippine production is restored, however, Cuba will be asked to cut back its annual export production to an estimated 2,250,000 tons. Yet what disturbs Cubans even more is the controversial Section 202E of the Act providing that supplemental import quotas may be withdrawn from nations which have denied "fair and equitable treatment" to American citizens or businesses. This, Cubans think, is an "economic club" wielded directly against their government to force payment of private American claims which the Cuban courts upheld long ago. As a consequence, the Cuban Ambassador to Washington, Dr. Guillermo Belt, announced on July 28 that Cuba will absent itself from the inter-American conference unless it receives assurances that Section 202E will be discussed there in the character of "economic coercion" and "a more dangerous threat than that represented by a naval or air demonstration." But Cuba's proposal that the projected treaty of mutual defense be invoked in the event of such economic threats was rejected by the Board of Governors of the Pan American Union, which has the task of preparing the preliminary agenda of the conference.

DEVELOPMENT NEEDS. Regardless of the merits of the question, this proviso in the Sugar Act will be interpreted in Latin America as heralding a return to the old days of dollar diplomacy when the United States assumed the role of a "private debt-collecting agency." The inevitable public debate is likely to confuse the underlying issue of whether under present circumstances Cuba can hope to maintain production of sugar (which, together with tobacco, largely determines the level of prosperity in the island) at the 1947 peak. This is a far more serious issue and one that is relevant to the economic

CAN ECONOMIC AID TO GREECE SUCCEED WITHOUT POLITICAL REFORM?

The Russian veto on July 29 of the American proposal that the Security Council establish a semi-permanent commission to keep watch on the troubled Greek borders accentuates the rivalry between the Soviet Union and the United States in the eastern Mediterranean and poses the question whether there can be any genuine international settlement of the Balkan problem. Since the American policy of checking Soviet expansion in this strategic area calls not only for special military and economic assistance to the Athens government but for effective international measures to prevent Yugoslavia, Albania and Bulgaria from intervening in Greek affairs, the Russian action creates a situation which is, in the words of Herschel V. Johnson, United States representative at Lake Success, "of the utmost gravity."

U.S. WEIGHS NEXT STEP IN UN. Despite the Soviet Union's categorical rejection of the American plan for dealing with the Greek border issue,

situation of most other Latin American countries.

Although the war brought an illusory prosperity, it aggravated the imbalance that characterizes the economy of these nations. It heaped new marketing problems atop old problems of unsalable surpluses, for Latin Americans will eventually have to find buyers for the product of their war-expanded extractive industries as well as for the new manufacturing industries, which flourished during the war when there was nothing better to be had, and which now face competition. Hence they believe they are entitled to the kind, although perhaps not the same degree, of consideration at the international level that is being given to problems of European reconstruction.

At the same time they realize that their problem, as Dr. Guillermo Belt described it during the Economic and Social Council's debate on the proposed Latin American Economic Commission, is one of development rather than reconstruction. Cubans, for example, now recognize that the island's concentration on rich harvests of sugar and tobacco has kept Cuba poor and dependent. Government programs to correct this imbalance by establishing new income-creating enterprises are receiving well-nigh universal support throughout Latin America. But these programs require funds, which in the final analysis must come from the sales of raw materials.

Rather than link the discussion of economic and defense measures, which Latin Americans believe are one and the same things the United States favors shelving economic and technical problems until the regular Ninth Pan American Conference to be held in 1948. Similarly it has taken the position in the Economic and Social Council that machinery already exists within the inter-American system for the solution of these economic difficulties. **OLIVE HOLMES**

Washington is determined to explore all other methods whereby the UN might implement the report of the Balkan Commission, whose major conclusion was that "Yugoslavia, and to a lesser extent Bulgaria and Albania, have supported the guerrilla warfare in Greece." In an effort to secure at least a partial solution to the problem, the United States could accept a series of essentially weak proposals, including recommendations by the Council that the four Balkan states do their utmost to establish normal good neighborly relations and that they study the practicability of arranging for the voluntary transfer of minorities. The United States could also present the evidence collected by the Balkan Commission to the General Assembly during its session next month as the basis for a full-dress discussion by all UN members.

However, in view of the evidence which the Commission's subsidiary organ in Salonika has recently collected, it appears extremely unlikely that the

United States will content itself with these or similar measures. For according to the summaries of this evidence which are reaching Washington, all three of Greece's northern neighbors have continued to extend aid to the Greek guerrillas during the four months since the Commission left Greece.

Under these conditions, the United States can be expected to give strong support to the request which the Greek government made on July 31 that the Security Council invoke the punitive measures of Chapter VII of the Charter, in order to "halt the spread of undeclared war" by its northern neighbors. In doing so, however, the United States can have little hope that Russia, having vetoed the proposal for a semi-permanent fact-finding frontier commission under Chapter VI, will agree to much stronger measures, which might range all the way from severance of diplomatic relations to total economic blockade or the use of armed force. Moreover, the Greek request contains the hint that in the event of another Russian veto, it may be necessary to resort to Article 51 of the Charter, which affirms the "inherent right of individual or collective self-defense if an armed attack occurs against a member of the United Nations."

MILITARY AID BOLSTERS GREECE. Meanwhile the United States is attempting to bolster Greece by rushing the delivery of the \$150,000,000 worth of arms and other military equipment provided under the Greek-Turkish aid bill. In addition to securing shipments from this country, the Greek government, according to an announcement made by Secretary of State Marshall on July 31, has been given a priority for the purchase of "important quantities" of American military supplies left in Europe at the end of the war. On the same day the American Mission in Athens announced that five shiploads of supplies, including mortars, trucks and other surplus United States military equipment, would reach Greece within the next ten days. However, the arrival of these supplies is offset by the imminent departure of British troops from the country, in accordance with the Attlee government's de-

cision to slash military expenditures and to increase manpower reserves in the British Isles. Although the British troops have played no part in the struggle between the Greek armed forces and guerrillas since the civil war of December 1944, they have given the government in Athens a sense of security during the current crisis. It is therefore at least doubtful whether American military equipment can furnish a substitute for the British troops.

WHAT ARE "INTERNAL" AFFAIRS? But it is not only in connection with the equipping of the Greek army that the American Mission is encountering difficult problems. Foreign and Greek observers in Athens generally agree that, under cover of a war against Communism, the old struggle between moderate republicans on the one hand and Rightist monarchists on the other is continuing, with the result that many liberals and even well-known conservatives have been arrested. Thus far Secretary Marshall and Dwight P. Griswold, chief of the American Mission, have insisted that the manner in which Greece maintains its public security is a purely internal affair.

But since these arrests have tended to drive non-Communists into the guerrilla bands, thereby complicating the task of the Greek army and increasing the possibility of intervention by the pro-Soviet states to the north, they can hardly be disregarded by the United States as it attempts to carry out its aid program. Moreover, because the American Mission, as Mr. Griswold declared on August 1, is eager to complete its assignment by June 1948, the United States has such a relatively short period in which to encourage the formation of a government capable of rallying all non-Communists that it cannot long postpone acceptance of the political responsibilities that inevitably accompany almost complete economic and military power.

WINIFRED N. HADSEL

Federal Government, by K. C. Wheare. New York, Oxford University Press, 1947. \$3.75

The author discusses *federalism* as a government system, with particular attention to the governments of the United States, Canada, Australia and Switzerland.

Palestine Mission: A Personal Record, by Richard Crossman. New York, Harper, 1947. \$2.75

Behind the Silken Curtain, by Bartley C. Crum. New York, Simon and Shuster, 1947. \$3.00

Two members of the Anglo-American Committee of Inquiry tell the stories of their experiences. Crum's book is a hard hitting "tract of the times"; Crossman's study is more analytical and reflective. Crum wants Britain to carry out the terms of the original mandate while Crossman favors partition.

Just published—

SPAIN IN THE POST-WAR WORLD

by Robert Okin

25 cents

August 1 issue of FOREIGN POLICY REPORTS

REPORTS are issued on the 1st and 15th of each month.

Subscription \$5; to F.P.A. members, \$4.

FOREIGN POLICY BULLETIN. Vol. XXVI, No. 43, AUGUST 8, 1947. Published weekly by the Foreign Policy Association, Incorporated. National Headquarters, 22 East 38th Street, New York 16, N. Y. BROOKS EMBRY, *President*; HELEN M. DAGGETT, *Secretary*; VERA MICHELES DEAN, *Editor*. Entered as second-class matter December 2, 1921, at the Post Office at New York, N. Y., under the Act of March 3, 1879. Four Dollars a Year. Please allow at least one month for change of address on membership publications.

F. P. A. Membership (which includes the Bulletin), Six Dollars a Year

Produced under union conditions and composed and printed by union labor.